



25X1

CONFIDENTIAL



8r Sept. 59

25X1

Subject: Organization of the Construction Industry in Poland,



25X1

Section II

Table of Contents

Page

(1.)	Transition from Investment and Repair Plan to the Construction-Assembly Plan	1.
(2.)	The Division between the Contracting and the Self-Management Economic System.....	3.
(3.)	The Reasons for Maintaining the Self-Management Economic System.....	8.

CONFIDENTIAL

CONFIDENTIAL

1. Transition from investment and capital repairs to construction-assembly production plan.

The Construction Plan derives, as mentioned before, from the Investment and Capital Repairs Plan. [] these plans are bound

25X1

together and [] it is possible to calculate national construction-assembly production. [] as example the value for the year 1957 in 1956 prices

25X1

[] checked with figures contained in the Small Statistical Yearbook 1958 on page 61, 62 and 65.

a. Initial data:

(1) The 1957 Socialized Investment Plan is known and amounts to 48.0 billion

(2) The private investments in 1957 are estimated at 1.2

billions for towns and 4.8 billions/ zlotys in villages, a

total of 6.0

(3) The Plan for Capital Repairs is known and amounts to 9.5

Total 63.5 billion zl

b. The share of construction-assembly work:

(1) From socialized investment outlays, about 59% goes for construction assembly work (the figure known from practice

and analyzed in details/ in a special study) 0.59×48 28.5 billion

(2) The private investments are almost all construction work 6.0

(3) Housing repairs/ known from capital repairs plan amount to 2.0

(4) From the remaining repairs about 70% are construction-assembly works (the rest goes for purchase of spare parts etc.) 0.7×7.5 5.2

The construction-assembly production plan total 41.7 billion zl

CONFIDENTIAL

CONFIDENTIAL

c/ The division of construction-assembly production into private and socialized sectors:

(1) It is known that the value of productivity of the private sector which includes craftsmen, the remainder of small private firms, and work of peasants on construction of their own homesteads is worth about 8 percent of the construction-assembly production 3.3 billion zlotys

(Remark: The private construction-assembly production should not be confused with private investments. Private investments are higher, and amounted in 1957 to 11 percent and in 1958 to 14 percent of the total national investment outlays. See Table I on page 13 para h/ in Part I Chapter B. ✓

It is a result of the fact that a part of construction from the means of the population represents a half private half socialized sector and a great percentage of work, especially so-called factory housing, is built by the housing construction cooperatives, i.e., by the socialized sector.)

- (2) The socialized construction assembly production ^{41.7-3.3} 38.4 billions
(see Small Statistical Yearbook 1958 on p. 65)
- (3) The socialized construction-assembly production in 1956 38.5 billions
- (4) The private production about 7.8% of the total or the total socialized construction-assembly production plus private production 1.078×38.5 ^{41.5} ~~41.5~~ billions which is in agreement with the former calculation.

It is generally known that the outlays for the socialized construction assembly production amount to about two-thirds of the total sum for socialized investments plus socialized capital repairs.

CONFIDENTIAL
2

~~CONFIDENTIAL~~

The allocation of tasks between constructors concerns only the socialized enterprises. There is no allocation of work for the private sector (for these 8 percent or 3.3 billions in the above mentioned example for 1957). However, its influence on materials market and labor force is taken into account, and the private sector is not allowed more than 10 percent of the total productive capacity, although the communist propaganda proclaims official support for private craftsmen.

In this way the sum of works and construction projects which has to be allocated to socialized enterprises, necessary building materials, labor, etc. is quickly and accurately counted and listed, which permits the allocation according to the classification system described.

2. The division between the ^{contracting} constructing and self-management ^{economic} system.

The State Economic Planning Commission allocates only about 90 to 92 percent of the total volume of the construction-assembly production each year. The remaining 8 to 10 percent is implemented by the private units. PKPG does not prepare any plans for them besides seeing to it that the private sector does not increase.

For these 92 percent, i.e., the socialized construction assembly production, the PKPG issues the obligatory control coefficients, plans the allocation of materials, etc., but even in this socialized production there are some differences.

CONFIDENTIAL

The production of the construction-assembly cooperatives is first separated. The PKPG allocates some materials for them, but within certain limits, i.e., on the basis of second priority after all needs and requirements of state enterprises are satisfied. Cooperatives implement about 4.5 to 5 percent of the total construction-assembly production, i.e., about 5 percent of the socialized production. In connection with the revival of the People's Construction Enterprises (SPB) in 1957 this percentage increased a little, and the production of the cooperatives may amount during the period 1959/1960 to 6 percent of the construction-assembly production. According to [] estimates ~~that~~ the production of SPB itself amounted in 1958 to about 3 percent of the total construction-assembly production.

25X1

The remainder, i.e., the state construction-assembly production, is divided between the contracting (system zlecony) and the self-management economic system (system gospodarczy). In the self-management economic system the contractor is not allocated; the investor receives the necessary funds but he must look for the contractor himself. The investor must hire a construction engineer, and organize the necessary construction brigade. It is true that only smaller investment projects, those below five million zlotys of value, are allocated to the self-management economic system. It sometimes happens that these small investments are under construction for several years, or that a larger investment project is allocated for specific reasons. In which

CONFIDENTIAL

CONFIDENTIAL

case the investor organizes an autonomous investment operation branch (Samodzielny Oddzial Wykonawstwa Inwestycyjnego-SOWI) which is not an independent enterprise, but a branch with its own economic account.

According to the Small Statistical Yearbook 1958, page 65, the share of the self-management economic system in the construction production was as follows:

<u>The construction-assembly production in 1957</u>	Billion zlotys		
	1956 Prices	% of the total national production	% of the total socialized production
a/ Total construction-assembly production	41.7 ^s	100	-
b/ Private production (see page ² 66)	3.3 ^s	8	-
c/ Socialized production	38.4	92	100

From this:

(1) Production of construction cooperatives	1.9	4.5	5.5
(2) State production	36.5	87.5	94.5

From this:

- self-management economic system	5.5	13	14
- ^o contracting system	31.0	74.5	80

Summing up these proportions it can be said:

	<u>1957</u>	<u>1959/60</u>
private	8%	10%
cooperative	4.5%	6
state self-management economic system	13 %	14
state contracting system	74.5%	70

25X1

CONFIDENTIAL

The first column refers to 1957 and the years before, the second column to the present situation 1959/1960. It shows that the State construction enterprises implement only 70% of the total construction production, non-construction establishments 14%, the construction cooperatives 6%, and the private sector, 10%.

All these proportions are illustrated in the diagram on the next page.

DIAGRAM, I

The transition from Investment Plan and Capital Repairs to Construction

Assembly Production Plan and Contracting System illustrated by example from the year 1957. The figures indicate billion zlotys.

OUTLAYS FOR INVESTMENTS AND CAPITAL REPAIRS 63.5			
TOTAL INVESTMENTS 54.0			CAPITAL REPAIRS 9.5
PURCHASE OF MACHINERY AND OTHER INVESTMENT OUTLAYS, MAINLY SURVEYS, DESIGNS, EXPROPRIATION AND LAND. 12.3	CONSTRUCTION ASSEMBLY WORK OF THIS 41.7		
	PRIVATE <i>Investment</i> 6.0	SOCIALIZED INVESTMENT 28.5	CAPITAL REPAIRS 7.2
	CONSTRUCTION ASSEMBLY PRODUCTION 41.7		
PRIVATE PRODUCTION 3.3 COOPERATIVES 1.9	SOCIALIZED CONSTRUCTION ASSEMBLY PRODUCTION 38.4		
	STATE PRODUCTION 36.5		
	STATE CONSTRUCTION ENTERPRISES 31.0		SELF-MANAGE- ECONOMIC SYSTEM 5.5
CONTRACTING SYSTEM OF THE STATE CONSTRUCTION ASSEMBLY ENTERPRISES 31.0			

25X1

CONFIDENTIAL

7

CONFIDENTIAL

3. The reasons for maintaining the self-management economic system.

As already mentioned above, the government is backing the contracting system and only tolerating the self-management economic system; watching it closely and not permitting it to grow much above 15 percent of the total construction assembly production. There are, however, some reasons for which the self-management economic system must be maintained.

a/ The state construction enterprises are unable to produce economically on small projects. They have the privilege of refusing industrial constructions below five million yearly production value, and housing constructions below three millions/ zlotys. This privilege protects them from burdensome small works and permits them to concentrate on large investment projects. For this reason the self-management economic system is maintained by request of the state construction industry, in order to relieve it from such work.

b/ Capital repairs are carried out best, especially capital repairs of machinery and equipment by the factory maintenance workers. They know these machines and are very often able to repair them after the normal work day, ^{or} during the operation of the factory. Bringing in an alien construction enterprise to a factory which is in operation is disturbing, and costs much more; besides there are also other reasons, like security in some armament plants. In addition, the construction enterprises do not have enough of the various specialists who are able to repair any type of machinery or equipment. Capital repair is often connected with modernization, reconstruction and expansion ^{which} ~~what~~ means it is classified

CONFIDENTIAL

as investment. For this reason also, small investments are implemented by factory workers, especially since almost every factory permanently employs some bricklayers for normal maintenance of factory buildings.

c/ There are some construction works which require outstanding specialists. This occurs, for example, in chemical factories where workers who know how to make the pipes and tanks acid resisting, who have their own formulas, skills in tinning or covering them with copper, are necessary. There is a shortage of these specialists in Poland, and for this reason the factories keep ~~them~~ for maintenance and repairs which in such case are implemented by the self-management economic system.

d/ Some economic branches, such as roads and railways, have their own extensive services for maintenance and repairs because they are required by safety regulations. Usually they carry on the repairs and such works as enlargement of stations, or minor extensions of ^{lines} ~~time, or~~ ~~prolongation or change~~. It would be uneconomical to bring in an alien enterprise, even one subordinated to the same ministry, for these supplementary constructions. This reason is called the exploitation of productive capacity of maintenance services.

e/ The agricultural workers are fully employed at the state agricultural farms during harvest, digging of potatoes, sowing season, etc., and later on have more free time. They can then be used for repairs and construction work on agricultural buildings.

f/ A director of a factory is very much interested in repair and small improvements. He is able to get the necessary materials in an irregular fashion, and must save these especially rare materials from the production process of his own factory. The construction enterprise regards such construction work very lightly, and often implements it very slowly. The allocation of a construction enterprise also means the allocation of building materials, however, usually only ordinary materials which are on the market. As far as special materials are concerned, such as acid resistant pipes, the investor is usually responsible for their supply and for this reason he prefers that his own workers install them.

g/ Although this self-management economic system uses only 14 percent of financial outlays, the number of these small construction works is large. If the PKPG allocated the construction enterprises for these tasks, it would greatly complicate the planning and preparation of balance sheets, and cause many disputes needing arbitration.

These reasons make it necessary that the self-management economic system be maintained, within some limits.

The construction work is implemented in the self-management economic system as follows: The investor orders the preparation of designs either at a state designing and consulting bureau, at a designing cooperative, or by a private construction engineer (the fee cannot be higher than 15,000 zlotys), or by its own factory engineers. The last is very difficult because permission from a central administration is necessary, and in such cases the directors of one factory may resort to ordering the design at another factory.

CONFIDENTIAL

Having a design and estimate, the investor can receive a credit from the Investment Bank and hire a construction cooperative, a labor cooperative, a small production team, or individual craftsmen and bricklayers, and at the same time assign a part of construction work to his own workers. There is also a possibility that the investor may organize its own construction brigades also called teams, or even organize an autonomous investment operation branch at his own establishment.

Remark: this organization within the self-management economic system should not be confused with the work of repair-maintenance establishments, which exist in all industries for investments and capital repairs, which belong to the contracting system.

The above analysis indicates within which ministries and construction branches the self-management economic system is more developed. These are: transportation and communication, agriculture, light industry, housing and communal economy.

a/ Transportation and communication.

Having their own large maintenance repair services for roads, railways including bridges, inland waterways, telephone and telegraph, they maintain large repair brigades which implement small investments by the self-management economic system. This does not prevent them from having separate construction engineering enterprises for larger investments.

CONFIDENTIAL

b/ Agriculture.

The state agricultural farms maintain their own construction teams because the state construction enterprises do not want to build small projects in distant rural areas, and besides the state agricultural farms have excess labor after the busy season.

c/ Industries.

The chemical industry often uses the self-management economic system because of exceptional constructions and projects. Similar conditions exist in electric power establishments where most have their own exploitation and maintenance repair brigades.

The Ministry of Heavy Industry and the Ministry of Mining have so many repairs that they organized large repair enterprises, and they avoid the self-management economic system.

d/ Communal Economy and Housing.

Establishments for water and sewer system, and gasworks have their own repair brigades. Also urban thermoelectric and boiler plants for housing, and the administrations of apartment houses in 1956 organized their own repair teams for maintenance and current repairs not including investments.

As is shown above there is also a large part of construction-assembly production implemented outside the existing state construction-assembly enterprises which amounts to about 30 percent of the total production (see ~~page~~ ~~and the~~ Diagram I on page 7).

This 30 percent includes about 10 percent of private productive capacity,

CONFIDENTIAL

CONFIDENTIAL

6 percent of construction cooperatives, 14 percent of the self-management economic system. The following organizations are outside the state construction-assembly enterprises:

a. Teams of small production, subordinate to peoples councils administratively, and supervised by the Committee for Small Production. They are state establishments which resemble small retail enterprises, but they are not yet properly developed.

b/ The cooperative enterprises including (SPB) People's Construction Enterprises.

This is a socialized, but not a state, sector.

c/ Labor cooperatives engaged in construction and assembly business. They do not receive a sufficient allocation of building materials in comparison with the two above listed organizations and they must buy some materials on the free market. They can purchase building materials in the shops of Peasants Mutual Aid ^{if} they build for villages.

d/ Private construction enterprises, but their share is very small.

e/ Individual private craftsmen who have proper trade licences.

f/ Individual private bricklayers, so-called "bungled" work, badly done but necessary.

The last two groups do not get any allocation of building materials. A great part of their construction work is based on so-called "leakage of materials" (przecieki materialowe), i.e., on supplies from illegal sources.

CONFIDENTIAL